

Module 2—Wage and Tip Income

Tax Tutorial

In this tax tutorial, you will learn about [wages](#) and [tip income](#).

Unless specifically excluded, all [wages](#), [salaries](#), [commissions](#), and [bonuses](#) are taxable.

All [tip](#) income is taxable and needs to be reported.

Employers report wage and tax information on [Form W-2, Wage and Tax Statement](#).

Employees use Form W-2 to complete their individual income tax returns.

next 

Module 2—Wage and Tip Income

Wages and Salaries

Wages, salaries, bonuses, and commissions are compensation received by employees for services performed.

Tip Income

Tips are received as gratuities by food servers, baggage handlers, hairdressers, and others for services performed. Tips go beyond the stated amount of the bill and are given voluntarily.

Employee compensation and tips may be in the form of cash, goods and services, awards, and taxable benefits.

Tax Tip:

Self-employed individuals are not employees. Self-employment income is taxable, but it is not included with wage and tip income on the tax return.

[< previous](#)[next >](#)

Module 2—Wage and Tip Income

Quick Check !

Determine whether the income is taxable or nontaxable. Answer the following questions by typing the words *taxable* or *nontaxable* in the space provided. To assess your answers, click the *Check My Answers* button at the bottom of the page.

- 1) Wages earned by a worker at a casual fast-food restaurant
A. Taxable No answer given: the correct answer is A.
B. Nontaxable
- 2) Tips earned by a server in a fashionable restaurant
A. Taxable No answer given: the correct answer is A.
B. Nontaxable
- 3) Overtime pay earned by a construction worker for working extra hours to complete a project on time
A. Taxable No answer given: the correct answer is A.
B. Nontaxable
- 4) Bonus given to a salesperson for making the most sales during the month
A. Taxable No answer given: the correct answer is A.
B. Nontaxable
- 5) Free lawn care service for a month for a mailroom employee who developed a handbook for new employees
A. Taxable No answer given: the correct answer is A.
B. Nontaxable

Module 2—Wage and Tip Income


Wages, salaries, and tip income are reported on Form W-2, Wage and Tax Statement.

Employers provide Form W-2 to the employee and to the federal government.

Employees use Form W-2 to complete their tax returns.

Tax Tip:

All wages, salaries, and tip income are taxable even if they are not reported on Form W-2.

Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile.

a Employee's social security number		b Employer identification number (EIN)		c Employer's name, address, and ZIP code		d Control number		e Employee's first name and initial		Last name		f Employee's address and ZIP code	
15 State	Employer's state ID number	16 State	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name							

W-2 Wage and Tax Statement
 Form **2007**
 Copy B—To Be Filed With Employer's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

Department of the Treasury—Internal Revenue Service

◀ previous

next ▶

Module 2—Wage and Tip Income

Quick Check!

[View Form W-2](#)

Review Form W-2 for Brandon Cooper by clicking the button *View Form W-2*. Then, answer the following questions by typing your answers in the space provided or by clicking on the correct answer. To assess your answers, click the *Check My Answers* button at the bottom of the screen.

1) What is the amount of wages, tips, and other compensation? (For example: 1000.00)

Type your answer here [No answer given: the correct answer is \\$17,253.00.](#)

2) How much federal income tax was withheld?

Type your answer here [No answer given: the correct answer is \\$1,552.00.](#)

3) Who is the employee?

Type your answer here [No answer given: the correct answer is Brandon R. Cooper.](#)

4) Who is the employer?

Type your answer here [No answer given: the correct answer is The Kitchen Corner.](#)

5) What is reported in box 4?

- A. Medicare tax withheld [No answer given: the correct answer is D.](#)
- B. federal income tax withheld
- C. advance EIC payment
- D. Social Security tax withheld


6) What is reported in box 6?

- A. Medicare tax withheld **No answer given: the correct answer is A.**
- B. federal income tax withheld
- C. advance EIC payment
- D. Social Security tax withheld

Recall: *In Module 1 - Tax Tutorial, you learned about federal income tax withholding and Social Security and Medicare taxes. The federal income tax withheld, the amount in box 2, was computed on the basis of Brandon Cooper's Form W-4. The Social Security tax withheld was 6.2 percent of Social Security wages (\$17,253 x 6.2%). The Medicare tax withheld was 1.45 percent of Medicare wages and tips (\$17,253 x 1.45%).*

 previous

next 

		a Employee's social security number 222-52-0000		OMB No. 1545-0008		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile .	
b Employer identification number (EIN) 10-0000000				1 Wages, tips, other compensation \$17,253		2 Federal income tax withheld \$1,552					
c Employer's name, address, and ZIP code The Kitchen Corner Main and Oak Anytown, USA XXXXX				3 Social security wages \$17,253		4 Social security tax withheld \$1,069.69					
				5 Medicare wages and tips \$17,253		6 Medicare tax withheld \$250.17					
				7 Social security tips \$2,321		8 Allocated tips					
d Control number				9 Advance EIC payment		10 Dependent care benefits					
e Employee's first name and initial Brandon R.		Last name Cooper		Suff.		11 Nonqualified plans		12a See instructions for box 12			
2265 North Central Avenue Anytown, USA XXXXX						13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b			
						14 Other		12c			
						12d					
f Employee's address and ZIP code											
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax		20 Locality name	

Form **W-2** Wage and Tax
Statement

2007

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Module 2—Wage and Tip Income

Lesson Summary

Unless specifically excluded, all wage and salary income is taxable.

All tip income is taxable.

Employers report wage, salary, and tip income on Form W-2, Wage and Tax Statement.

Employees use Form W-2 to complete their tax returns.

Taxpayers need to report all taxable income, even if it does not appear on Form W-2.

 [previous](#)

Module 2—Glossary

Glossary

bonus —compensation received by an employee for services performed. A bonus is given in addition to an employee's usual compensation.

commission —compensation received by an employee for services performed. Commissions are paid based on a percentage of sales made or a fixed amount per sale.

salary —compensation received by an employee for services performed. A salary is a fixed sum paid for a specific period of time worked, such as weekly or monthly.

tip income —money and goods received for services performed by food servers, baggage handlers, hairdressers, and others. Tips go beyond the stated amount of the bill and are given voluntarily.

wages —compensation received by employees for services performed. Usually, wages are computed by multiplying an hourly pay rate by the number of hours worked.

 [previous](#)
